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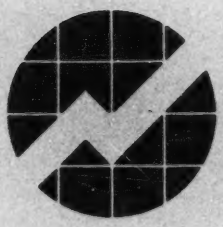
U.S. ECONOMY

OUTLOOK FOR 1980

KEDI ECONOMIC SURVEY



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OUTLOOK FOR 1980

KEDI ECONOMIC SURVEY

DECEMBER ISSUE

December 31, 1979

President: Vladimir J. Simunek

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1.0 OVERVIEW AND ASSUMPTIONS

1.01 OVERVIEW

Long-term Outlook

KEDI's long-term forecast for the 1980's shows an overall slower growth rate than during the 1970's, with two distinct growth cycles culminating in years of high inflation and energy shortages.

On the average, KEDI expects the U.S. economy to grow at a 1.8 - 1.9% yearly rate, contrasted with an average 2.0% yearly rate during the 70's. Two cycles are predicted, one spanning the years 1981 to 1985, and the second from 1985 to 1990. Growth will be continuous but slow during each of these cycles. Peak growth years will be 1984 and 1989, with moderate slowdowns following due to expected energy crunches and a steel shortage in the middle of the decade.

KEDI also expects productivity to increase an average 1.8 - 2.0% yearly, which is in line with the predictions of other major forecasters.

Inflation rate is expected to follow a see-saw pattern throughout the decade, with periods of a 10% or higher followed by years of lower inflation. A slowdown to 9% is forecasted for 1982, with a resumption of 10% or more in 1983 to 1985. 1987 and 1988 will see an even sharper slowdown below 8%, then the rate will jump back to 10% during the closing years of the decade.

As for world trade during the 80's, the U.S. will slightly decrease its share of exports, although it will remain a leading exporter of machinery

and food products. KEDI projects that the U.S. share of world exports of machinery will drop insignificantly and exports of agricultural products will keep increasing throughout the decade.

On the import scene, U.S. dependence on foreign oil will drop somewhat, with a decline from the present 49% to about 45% expected by the end of the decade.

While this is encouraging, the U.S. will become more vulnerable in other areas, namely in increasing dependency on imports of raw materials and minerals. The following table shows a comparison of the imported percentages of our yearly demand now and 1990:

	Now	1990
Iron ore	25%	35%
Nickel	70%	80%
Manganese	95%	95%
Cobalt	95%	95%
Chromium	85%	90%
Zinc	50%	60%
Tin	80%	85%
Aluminum and bauxit	90%	95%
Asbestos	80%	90%
Potasium	60%	70%

Turning from the external to the internal provides a brighter outlook. Automobile sales, which are expected to be at a low of 10.4 million during 1980, will climb to 14.2 million by 1990. Housing starts, which are now in a fairly steep slump at 1.6 million, will also climb to 2.4 million by the end of the decade. And, according to Commerce Department figures, the service industries will expand strongly during the coming years, particularly in the areas of hotels and motels,

motion pictures, advertising, franchising, and educational and automobile services.

Overall, many economists are being cautiously optimistic about the 80's. Most expect inflation to remain high but growth to continue. A recent survey of 41 forecasters by economic consultant Robert J. Eggert yields an expected average growth of 2.8% for the decade. And Arthur Burns, former chairman of the Federal Reserve Board, was recently quoted as expecting "the world to look a good deal brighter" in 1990 than it does today.

Short-term Outlook

KEDI's outlook for 1980 is not exactly rosy: continued high inflation and a mild downturn followed by sluggish economic growth. The first quarter of 1980 is expected to be the bottom of the decline.

Forecasters have finally ceased quibbling over the meaning of the word "recession" and have finally decided we are indeed in for one, but the issue now is how long it will last and how deep it will be. Differences in expectations are huge.

The Conference Board, a private research organization, has predicted that the slump will be much less dramatic than the recession of 1974-75, with the first half of 1980 at the bottom of the curve and sluggish recovery beginning in the fall. (A view which corresponds roughly to KEDI predictions.)

A survey of top economists recently published in Business Week magazine shows predictions of change in the GNP during the coming year which

vary widely. Some forecasters expect the GNP to fall off during the first quarters and grow during the second half of the year. Some expect just the reverse. An average of those figures is as follows: fourth quarter 1979: -1.2%; 1980-1: -3.2%; 1980-2: -2.5%; 1980-3: 0.7%; 1980-4: 2.4%.

Nine major forecasting institutes, including KEDI, also list figures for this same period:

	1979	1980			
	4	1	2	3	4
Chase Econometric Associates	-2.5	-6.1	-1.7	1.1	3.4
Data Resources	-2.3	-4.6	-2.4	1.7	1.9
Georgia State University	-1.1	-4.4	-3.1	-1.3	3.1
KEDI	-0.5	-0.7	0.2	1.0	0.7
Merill Lynch Econ.	-0.6	-6.0	-4.7	-0.4	4.4
University of Michigan	0.0	-0.9	-1.2	-0.4	0.9
Townsend-Greenspan	-1.3	-1.4	-4.7	-2.2	0.6
University of California, Los Ang.	-2.7	-4.9	-2.7	1.4	2.4
Wharton EFA, Univ. of Penn.	-2.4	-2.1	-1.8	0.5	2.8

The short-range outlook in the banking community is also less than encouraging as seen by some forecasters. Interest rates are expected to climb even higher, banks may be choosier about lending, and money supplies in some areas may dry up completely, owing to the Federal Reserve Board's inflation-fighting, credit-tightening measures taken in October of last year. In short, this may not be the year to purchase that new house, or anything else which requires long-term financing.

KEDI expects that the tight monetary policy will ease somewhat during the second half of 1980, corresponding with a more significant increase in economic activity. This will follow the predicted bottoming out of

the recession during the frist quarter and slight growth during the second quarter.

In general, KEDI predicts the average output will be slightly below the level of 1979, unemployment will go higher, and inflation will be a little more severe this year.

The KEDI's 1980-1985 outlook is highlighted in Table 1.0 on the following page.

1.02 ASSUMPTIONS

The following assumptions are parts of this forecast. Compared with assumptions incorporated into the November, 1979, forecasts, the changes concern the Assumptions No. 1, 2, 4 and 7.

1. In 1980, approximately 95% of the demand for oil in this country will be met. In 1981 all basic U.S. demands for oil should be met. The weighted price of oil in 1979 will average $26 per barrel and in 1980 this figure will go up to the $34 range. In 1981, it is expected the price will go up on $40 and in 1982, on $46 per barrel.

2. It is still to current to develop a longer-lasting assumption for the impact of the Iranian-Mid East crisis. At the present forecasts, higher price increases of energy items and higher defense orders have been considered.

3. The Administration will continue its policy of maintaining high interest rates and tight money. In the second or third quarter of 1980 it will adopt fiscal measures aimed against further increases in

KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1978	1979	1980	1985
Gross National Product	bil.	1399.2	1428.2	1427.7	1703.6
Index of Industrial Production	1967 =100	145.2	151.9	151.5	168.3
Capacity Utilization	%	86.4	86.2	86.4	85.8
Unemployment Rate	%	6.0	5.9	6.4	6.2
Private Housing Starts	mil. units	2.020	1.721	1.526	1.902
Car Sales	mil. units	11.3	10.7	10.1	12.4
Implicit GNP Price Deflator	1972 =100	152.1	165.4	179.7	275.6
Consumer Price Index	1967 =100	195.3	217.7	242.8	377.8
Producer Price Index	1967 =100	209.3	235.9	269.5	401.6
Federal Deficit	bil.$	-27.7	-11.0	-20.1	-24.8
Personal Income	bil.$	1717.4	1917.8	2131.1	3255.8
Prime Rate	%	9.06	12.73	13.29	10.14
Mortgage Rate	%	9.30	10.52	11.38	9.89
Currency plus Demand Deposits	bil.$	352.8	376.2	413.1	649.8
Commercial and Industrial Loans	bil.$	230.9	263.0	277.9	446.8

unemployment. The monetary policy will ease during this same time.

4. It is assumed that in 1981 the new Administration will adopt a definite program in fighting the inflation by gradually reducing the excess demand. The Federal Reserve Board will, at long last, begin a policy of setting the limits to the monetary growth by long-term commitments, not just short-term as has been the policy in the past. Price and wage controls must remain the last resort of stabilization policy. For 1982 and consecutive years, we assume that the Administration will pursue a more vigorous antiinflation policy.

5. Our foreign trade with China will expand more rapidly starting this year, and will gain a substantial momentum in 1981 and following years.

6. In 1980, 1981, and 1982 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. Low harvest in the U.S.S.R. is expected in 1983. The U.S. 1983 harvest will be average, and the years 1984 and 1985 will bring the record crops.

7. It is projected here that the rates of growth in 1979, 1980-1982 in the major industrial countries will be as follows for real GNP:

	1979	1980	1981	1982
West Germany	3.0%	3.1%	3.4%	3.5%
Italy	2.9	3.0	3.0	3.1
Japan	2.9	2.3	2.1	2.3
Great Britain	1.4	1.8	1.9	2.0
France	2.7	2.6	2.6	2.7

8. No abrupt changes in political situations in the world will occur.

9. The attitude of businesses and consumers will remain at low levels throughout 1980. A significant change is assumed to occur in 1981, due mainly to the Administration's policy aimed to stimulate the increases in productivity in the economy.

1.1 REAL GROWTH

(Table 01. on page 24)

Economists generally agree that the coming slowdown will not be deep or long-lasting. KEDI sees the following main factors which will shape the economy during 1980: moderate business capital spending; cautious inventory buildups; booming exports; higher crop yields and retail sales; slightly below normal car sales; not dramatic drop in housing starts; and moderate increases in consumers' spending.

In the area of capital spending, KEDI predicts that real capital outlays will increase 1% as compared to 1979. This will have a moderating effect on the expected economic downturn, a view which is supported by government economists.

The last recession in 1974-75 was preceeded by an investment boom in 1972-73. This is not the case at the present time, however. Business investments in 1978-79 were only moderate.

Businesses will be cautious about inventory levels. Again, compared with the last recession, businesses have kept fairly low inventories. Consequently, excess inventories cannot be a factor driving the economy into recession, as it was during 1974-75.

KEDI forecasts only a mild inventory buildup during the entire year of 1980. Retail inventories will be kept under control, and automakers,

although not entirely out of the woods, have already cut inventories to substantially lower levels than during 1974.

Overall increases in manufacturing inventories will be $8 billion to $9 billion, measured in constant 1972 dollars, compared to a buildup of $20 billion in 1975. Most analysts expect that the huge buildups which occurred before the last recession will be avoided. An economist from Dean-Witter Reynolds draws the distinction between by saying that there has been no speculative hoarding of merchandise in anticipation of shortages, as there was for six to eight months before the 1974-75 recession.

The trade picture will also play a part in minimizing the impact of the recession. KEDI forecasts a 7% increase in exports in 1980 compared to 1979, and a slowdown in imports. This strong performance will be a substantial moderating factor.

The forecast is also promising in the areas of crop yields, retail sales, auto sales and housing starts. The KEDI's forecast shows crops of winter and spring wheat will be higher than in 1979 and corn and soybeans will remain at approximately the same high levels. Retail sales are expected to keep increasing throughout the year.

Production of automobiles and housing starts, the traditional signposts of economic recovery, will experience the most significant changes. The projection shows that automobile output will start to recover no earlier than the second half of 1980. However, auto sales will not be affected in the same manner due to the increased sales of imported cars.

KEDI's projection of housing starts is more optimistic than the outlook

of the majority of forecasters. KEDI projects starts in 1980 to drop to 1.6 million units, compared to 1.8 million units in 1979. This, again, indicates only a mild recession when compared to the 1975 drop to 1.4 million units.

The forecast of consumer spending presents constant, although small increases in spending on nondurables and services with temporary decline in the durables sector.

Administration policy will have a strong effect on the outcome of the 1980 economy. If the Administration continues the tight monetary and fiscal policies instituted by the Federal Reserve Board, and continues to tighten the federal budget, then the "Washington-made recession" will be prolonged and deeper than anticipated.

Indications are, however, that the fiscal policy will not be so restrictive as expected. Major inflationary federal expenditures will remain basically unaffected in the fiscal 1979-1980 budget, and KEDI expects the start of a gradual decline in interest rates in the second quarter of 1980.

As compared with the previous forecast, this one, presented in this issue, contains higher amounts of defense orders and of defense spending due to the Iran-Mid East crisis, and the corresponding chain effects on industries' outputs and employment.

Recent evidence supports KEDI's forecasts:

Machine-tool orders remain strong, with no indications that metal-producers are cutting back equipment purchases.

Winter-wheat seedings for 1980 total about 9.5% more in acreage than a year earlier, according to the Agriculture Department.

Business inventories grew only about 1% in October, according to the Commerce Department, indicating that the business attitude is one of caution.

Retails sales rose a healthy 1.8% in November, also according to Commerce Department figures.

Early government data on the fourth quarter 1979 GNP show a slight rise of about 1%, where a decline had been expected.

Oil imports dropped to the lowest monthly level in almost two years in November, narrowing the U.S. trade deficit.

Factory orders increased by an adjusted 0.9% in November, compared to a 0.4% decline in October.

The accompanying table (Table 2.0 U.S. Industrial Output 1980 on the following page) shows the KEDI projection of the output of selected U.S. industries in 1980. The projected data indicate that the following industries will experience difficulties, mostly in the first half of the year: furniture and fixtures, primary metals, nonelectrical machinery, rubber, clay, glass, stone, lumber, and textile.

Substantial output increases are expected in the following industries: chemicals, plastics, electrical machinery, machine tools, mining, non-ferrous metals, ordnance, and the service industries.

The following Table on page 13 (Table No. 3.0 Gross National Product and Components in Constant $) presents the projected U.S. output in real

Table 2.0 U.S. Industrial Output 1980
(Index of Industrial Production, 1967 = 100)

Industry	1979	1980				1980
	4	1	2	3	4	Year
All Industries	151.4	149.9	150.1	152.6	153.4	151.5
Mining	127.4	129.3	131.0	132.4	134.1	131.7
Foods	147.9	147.0	147.2	147.9	148.2	147.6
Tobacco Products	118.7	118.2	118.4	119.6	120.1	119.1
Textile Mill Products	146.4	145.7	145.1	146.2	146.8	146.0
Apparel Products	131.6	130.1	129.6	130.8	131.6	130.5
Paper and Products	154.2	154.0	154.1	155.2	156.7	155.0
Printing and Publishing	139.2	138.6	139.0	139.4	140.8	139.5
Chemcials and Products	213.6	214.8	215.9	217.0	218.9	216.7
Petroleum Products	141.4	141.2	141.0	141.2	141.3	141.2
Rubber and Plastic Prod.	271.2	270.8	269.8	271.3	273.6	271.4
Leather and Products	70.1	69.5	69.3	69.2	68.9	69.2
Ordnance	76.7	78.4	80.2	82.6	84.7	81.5
Lumber and Products	135.9	133.1	131.0	131.4	131.9	131.9
Furniture and Fixtures	160.4	157.7	157.4	157.8	159.2	158.0
Clay, Glass, Stone Prod.	160.9	159.2	158.3	159.6	160.4	159.3
Primary Metals	115.2	113.1	113.9	114.4	115.3	114.2
Fabricated Metal Prod.	145.6	144.7	144.9	145.7	145.9	145.3
Nonelectr. Machinery	161.3	160.0	160.2	160.9	161.5	160.7
Electrical Machinery	176.7	177.1	177.4	177.9	180.6	178.3
Transportation Equipment	121.2	118.7	122.6	128.6	131.5	125.4
Instruments	174.6	173.8	174.5	175.2	176.0	174.9
Miscellaneous	156.2	157.1	157.9	158.4	159.2	158.2
Utilities	167.8	168.2	168.8	169.6	170.4	169.3

terms. A small decline in real GNP is due mainly to the low performance in the first and second quarters of the year. Third and fourth quarters show the return to a more normal situation. Business investment in structures and durable equipment has steady increases throughout the year, and investment in inventories remains at tolerable level.

Table No. 3.0 Gross National Product and Components

Indicator	Unit	Year 1979	Year 1980				Year 1980
			1	2	3	4	
GNP - Constant $	Bil. 72$ SAAR	1428.2	1415.8	1418.9	1432.7	1443.2	1427.7
Personal Consumption Expenditures	"	920.2	908.7	909.2	917.0	920.7	913.9
Gross Domestic Private Investment	"	216.1	207.5	209.1	213.9	218.3	212.2
Structures	"	47.0	45.3	45.5	46.0	46.7	45.9
Producers Durable Equip.	"	100.9	98.7	98.9	100.6	101.5	99.9
Residential Construction	"	56.5	52.8	53.1	54.2	54.9	53.8
Change in Busines Inventories	"	11.6	10.7	11.6	13.1	15.2	12.8
Exports	"	120.0	124.3	124.2	126.4	128.7	125.9
Imports	"	102.0	101.9	102.1	104.5	105.9	103.6
Net Exports	"	18.0	22.4	22.1	21.9	22.8	22.3
Federal Expenditures	"	98.8	99.1	99.3	99.4	99.6	99.4
State and Local Expenditures		175.1	178.1	179.2	180.5	181.8	179.9

Table No. 4 Capacity Utilization shows the projected utilization rates in major manufacturing divisions. Capacity utilization rate will reach the lowest level in the first quarter this year, and steady improvement will take place since.

Table 4.0 Capacity Utilization

	Unit	1979	1980				1980
		4	1	2	3	4	
Materials	%	86.8	85.3	85.6	86.6	87.9	86.4
Durable Goods	%	85.1	84.1	84.2	85.1	87.2	85.2
Nondurable Goods	%	89.0	86.6	87.0	88.4	89.0	87.8
Energy	%	87.2	87.3	87.6	87.8	87.7	87.6

4.2 PRICES

(Table 02. on page 25)

The KEDI's outlook for prices remains basically unchanged from previous forecasts--inflation will remain high. In the present forecast the consumer price index and producer price index and implicit price deflators have been increased due to routine revisions of recently released price statistics, and due to the change in Assumptions No. 1 and 2. These assumptions concern the oil price increases and the impact of Iran-Middle East crisis.

Analysis of the forecast data shows that the following main factors will contribute to keeping the inflation rate high in 1980:

First, the increasing cost of energy items. The main increases in gasoline, heating oil and other oil products are expected to continue throughout the

year, due to increased prices of imported oil and deregulation of prices in the domestic oil industry.

Second, prices of exported and imported commodities will grow faster than domestic prices, pushing the overall U.S. price level upwards. KEDI projection of the rise in export prices for 1980 is 16% and the rise in import prices is 15%, well above the inflation rate of 9% when measured by the GNP price deflator and 12% when measured by the Consumer Price Index.

Third, new wage and salary settlements. The analysis of KEDI forecast data demonstrates that the increase in minimum wage effective January 1, 1980, will contribute approximately a 1% increase in the rate of inflation. The new wage settlements and escalating clauses in existing contracts will contribute 3% and the Social Security escalating clauses will contribute 2% to the inflation rate.

The analysis shows further that the Administration's tight money policy cannot be too effective with regard to the price level. High interest payments contribute to the upwards pressures on prices and do not reduce the demand adequately. (In the last recession in 1974-75, the unemployment rate went up by 61%, but prices increased by 29% during the same period.) Fighting inflation with high interest rates proved not to be too efficient.

A substantial cut in the inflationary price increases by using the tool of monetary and credit policies would require more drastic measures; but the price the country should pay for that, would be too high.

The long-term analysis shows that the effective method of fighting inflation is to increase the productivity of labor. Calculations based on the Kent Model forecast indicate that, if the productivity of labor were to increase by 3.0% annually for the next five years, the inflation rate could recede to 5% by 1985.

1.3 LABOR

(Table 03. on page 26)

KEDI's forecast of the unemployment rate for the fourth quarter of 1979 has been reduced due to the unexpected decline in the November rate. We have also reduced the rate for the first quarter of 1980 from the original 7.2% to 7.1%.

The accompanying table demonstrates the extent to which the selected industries will be affected in 1980 by the expected economic slowdown. Data in the table express the total hours lost by the unemployed and persons on part time for economic reasons as a percent of potentially available labor force hours.

Table 5.0 Unemployment in Industries
(Seasonally adjusted)

			1980				
Industry	1978	1979	1	2	3	4	1980
Construction	10.6	10.2	14.6	13.7	11.2	10.8	12.6
Manufacturing:							
Durables	4.9	5.1	6.1	6.1	5.8	5.5	5.9
Nondurables	6.3	6.7	7.0	6.7	6.0	5.9	6.4
Transp. & Utilities	3.7	3.7	4.4	4.3	4.0	3.9	4.2
Wholes. & Retail	6.9	6.4	6.3	6.3	6.1	6.1	6.2
Finance & Services	5.1	4.9	5.1	5.1	4.9	4.8	5.0
Government	3.9	3.6	3.4	3.4	3.4	3.3	3.4
Agriculture	8.8	9.7	14.7	10.6	8.5	8.6	10.6

1.4 HOUSING
(Table 04. on page 27)

KEDI's forecast of 1.6 million unit starts in 1980 is more optimistic than predictions of other forecasters. The National Association of Home Builders expects a low of 1.1 million to 1.3 million during 1980 or early 1981. Other industry analysts expect 1.2 to 1.3 million starts, down considerably from the 1.7 million total expected for 1979.

Indications are now, however, that analysts are again raising their 1980 forecasts made during a pessimistic overreaction to the Federal Reserve Board's fiscal moves in October.

KEDI's forecast data for housing shows a better picture for apartment houses than for single-family units. The former will drop only 5%, the latter, 15%.

Also, predictions regarding financing home building projects is not so grim as many forecasters would paint it. Our 1980 data show only a moderate decline in mortgage lending.

1.5 FEDERAL AND STATE AND LOCAL BUDGETS
(Table 05. on page 28)

The expected Federal budget deficit has been increased by about $1 billion in KEDI's new projection. The projection does anticipate any major tax break, but a small package of investment stimuli for businesses is considered. It has been incorporated into all KEDI's forecasts since 1977.

The battle for the incorporation of a $30 billion to $40 billion tax cut, fought for by the business community, appears to have been lost.

The Administration has definitely decided not to include such a package in the budget proposal that will be sent to Congress late in January.

The projected increase in the Federal deficit is mainly due to the projection of reduced revenue expected this year. Also, the Administration has revised its earlier forecast, and now projects the deficit for the current fiscal year to be $33.2 billion, compared to $27.28 billion deficit in fiscal 1979.

Projections for State and local budgets remain essentially unchanged. Compared to the previous forecast, surpluses of State and local budgets have been slightly decreased due to higher anticipated expenditures. Expenditures will be higher because of the predicted higher inflation rate.

1.6 INCOME

(Table 06. on page 29)

KEDI's projection of the average wage increase in 1980 is 11%, well above the Administration's 1979 wage guideline of 7%. Contrary to the opinions of many forecasters, KEDI expects that profits of major corporations will not be significantly affected by the upcoming economic slowdown. After-tax profits will show a healthy 12% increase.

The productivity of the majority of industries will remain unchanged, as the projection of labor productivity for the year shows no significant increase. Therefore, the major portion of these wage increases will only serve to fuel inflation. In the manufacturing sector, KEDI expects that businesses will absorb approximately 20% of the increases, leaving 80% to be carried by the purchasers, and ultimately,

the consumers.

No significant increases or decreases are expected in the area of personal income. Personal income will grow at an annual rate of 11-12%, keeping pace with inflation. The projection of the Disposable Personal Income is slightly different, however. Disposable Personal Income will grow only by 10.7-10.9%, the difference being due to higher income taxes and Social Security taxes.

Per Capita Personal Income, adjusted by the expected inflation, will decline in 1980 by 2.0% when compared to 1979.

1.7 MONEY AND CREDIT
(Table 07. on page 30)

The only significant change here is in the area of consumer credit. The forecast of the total of consumer credit in 1980 has been raised by approximately $3 billion, due to the predicted increase in the inflation rate. Higher prices will push people more into debt.

Projections regarding the monetary aggregates and the stock market remain essentially unchanged compared to the previous forecast.

Indications are that the Federal Reserve moves did not turn out to be as tough as expected. Recently released data show that the demand for bank loans is increasing at a healthy pace and the money supply is growing steadily.

Although recent developments in the money and credit markets indicate some easing, resulting in some lowered interest rates, KEDI maintains

its position that the first signs of relief in the Fed's tight monetary and credit policies will appear no earlier than the second quarter of this year.

This corresponds with the stand of Paul Volcker, chairman of the Federal Reserve Board. Volcker maintains that interest rates can fluctuate in response to credit demands and economic conditions without any basic change in the monetary policy, which is directed toward reducing the growth of money and credit.

Volcker continues to emphasize that the Fed is determined to maintain its anti-inflation policies.

1.8 INTEREST RATES AND YIELDS

(Table 08. on page 31)

Projections of interest rates, yields and stock market prices remain essentially unchanged from the previous forecast.

The projection shows drops in interest rates during the second half of 1980. However, the declines will not be dramatic. We anticipate that high interest rates will remain among the main tools the Federal Reserve Board will use to protect the international value of the dollar.

The projection of stock market prices presents a mixed picture. Although the general trend is for no dramatic changes on the market, a more detailed view pictures varying performances by industrial stocks.

The prediction is for good performance by stocks of the oil, nonferrous metals, chemicals, plastics, electrical machinery, semiconductors,

computers, utilities and service industries.

Weaker performances are projected for stocks in the paper, textile, appliances, trade, stone and glass, food and related products, leather and shoes, and rubber industries.

Table 6.0 GROSS NATIONAL PRODUCT AND COMPONENTS

(billions curr. dollars, seas. adj. at annual rates)

	1979	1980				1980
Indicator	4	1	2	3	4	
Gross National Product	2427.3	2455.0	2522.8	2607.5	2678.6	2566.0
Personal Cons. Expend.	1543.7	1588.8	1603.9	1655.3	1707.0	1631.2
Durables	213.3	210.3	212.3	220.4	226.2	217.3
Nondurables	601.1	598.6	613.3	631.2	645.9	622.4
Services	729.3	749.9	778.4	803.7	834.9	791.5
Gross Private Dom. Inv.	392.6	393.1	404.3	419.2	429.0	411.5
Structures	93.3	91.6	93.0	95.5	98.5	94.7
Dur. Equipment	168.1	168.6	172.2	178.3	183.0	175.5
Residential Struct.	115.8	112.5	114.6	118.3	122.2	117.0
Inventories Change	15.4	20.4	24.5	27.1	25.3	24.3
Exports	283.3	296.2	307.0	325.1	339.0	316.8
Imports	284.3	294.7	307.1	322.8	338.5	315.8
Net Exports	-1.0	1.5	-.1	2.3	.5	1.0
Federal Purchases	166.9	171.5	175.5	180.9	185.1	178.3
State and Loc. Purch.	325.3	330.1	339.2	349.8	357.0	344.0

Table 7.0 GROSS NATIONAL PRODUCT AND COMPONENTS

(bil.const. 72$, seas. adj. at annual rates)

	1979	1980				1980
Indicator	4	1	2	3	4	
Gross National Product	1426.2	1415.8	1418.9	1432.7	1443.2	1427.7
Personal Cons. Expend.	918.4	908.7	909.2	917.9	920.7	913.9
Durables	145.6	141.5	140.7	142.5	143.8	142.1
Nondurables	339.4	332.0	331.7	332.9	332.6	332.3
Services	433.4	435.2	436.8	441.6	444.3	439.5
Gross Private Dom. Inv.	211.1	207.5	209.1	213.9	218.3	212.2
Structures	46.9	45.3	45.5	46.0	46.7	45.9
Dur. Equipment	101.0	98.7	98.9	100.6	101.5	99.9
Resid. Structures	55.1	52.8	53.1	54.2	54.9	53.8
Inventories Change	8.1	10.7	11.6	13.1	15.2	12.8
Exports	124.6	124.3	124.2	126.4	128.7	125.9
Imports	102.8	101.9	102.1	104.5	105.9	103.6
Net Exports	21.8	22.4	22.1	21.9	22.8	22.3
Federal Purchases	98.0	99.1	99.3	99.4	99.6	99.4
State and Loc. Purchases	176.9	178.1	179.2	180.5	181.8	179.9

Table 8.0 IMPLICIT PRICE DEFLATORS

(Index Numbers, 1972 = 100)

	1979	1980				1980
Indicator	4	1	2	3	4	
Gross National Product	170.2	173.4	177.8	182.0	185.6	179.7
Personal Cons. Expend.	168.1	171.5	176.4	180.5	185.4	178.5
Structures	198.9	202.1	204.5	207.6	210.9	206.2
Dur. Equipment	166.4	170.8	174.1	177.2	180.3	175.6
Residential Structures	210.1	213.1	215.9	218.4	222.6	217.5
Exports	227.4	238.3	247.2	257.2	263.4	251.5
Imports	276.6	289.2	300.8	308.9	319.6	304.6
Federal Purchases	170.3	173.1	176.7	182.0	185.8	179.4
State and Loc. Purchase	183.9	185.4	189.3	193.8	196.4	191.2

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TABLE 01. REAL GROWTH
(Unless otherwise noted, quarterly data
are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
Gross National Product, 1972$	bil.$	1399.2	1430.6	1422.3	1433.3	1426.2	1428.2
Index of Indust. Production	1967=100	145.2	152.2	151.9	152.2	151.4	151.9
Unemployment Rate	%	6.0	5.8	5.7	5.8	6.1	5.9
Capacity Utilization Rate	%	84.3	86.7	85.9	85.3	86.8	86.2
Private Housing Starts	mil. units	2.020	1.616	1.837	1.825	1.606	1.721
Car Sales	mil. units	11.3	11.6	10.5	10.8	9.7	10.7

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Gross National Product, 1972$	bil.$	1428.2	1415.8	1418.9	1432.7	1443.2	1427.7
Index of Indust. Production	1967=100	151.9	149.9	150.1	152.6	153.4	151.5
Unemployment Rate	%	5.9	7.1	7.0	6.6	6.8	6.9
Capacity Utilization Rate	%	86.2	85.3	85.6	86.6	87.9	86.4
Private Housing Starts	mil. units	1.728	1.414	1.508	1.604	1.574	1.526
Car sales	mil. units	10.7	9.4	9.3	10.6	10.7	10.1

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Gross National Product, 1972$	bil.$	1427.7	1450.2	1463.5	1473.7	1488.4	1469.0
Index of Indust. Production	1967=100	151.5	153.6	154.3	155.5	156.1	154.9
Unemployment Rate	%	6.9	6.2	6.5	6.4	6.2	6.3
Capacity Utilization Rate	%	86.4	88.1	88.2	87.9	88.4	88.2
Private Housing Starts	mil. units	1.526	1.536	1.692	1.788	1.807	1.708
Car sales	mil. units	10.1	10.4	11.2	11.3	11.7	11.2

*Historical data

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TABLE 02. PRICES AND NOMINAL GNP
(Unless otherwise noted, quarterly data
are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
Consumer Price Index, NSA	1967=100	195.3	207.0	214.1	221.1	228.6	217.7
Producer Price Index, NSA	1967=100	209.3	227.2	231.7	238.8	245.9	235.9
Implicit GNP Price Deflator	1972=100	152.1	160.2	163.8	167.2	170.2	165.4
Gross National Product	bil.$	2107.6	2292.1	2329.8	2396.5	2427.3	2361.5
Personal Cons. Expenditures	bil.$	1340.1	1454.2	1475.9	1528.6	1543.7	1500.6
Gross Private Dom. Investment	bil.$	345.6	373.8	395.4	392.3	392.6	388.5

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Consumer Price Index, NSA	1967=100	217.7	234.7	240.3	245.8	250.3	242.8
Producer Price Index, NSA	1967=100	235.9	256.3	265.8	273.5	282.4	269.5
Implicit GNP Price Deflator	1972=100	165.5	173.4	177.8	182.0	185.6	179.7
Gross National Product	bil.$	2361.5	2455.0	2522.8	2607.5	2678.6	2566.0
Personal Cons. Expenditures	bil.$	1500.6	1558.8	1603.9	1655.3	1707.0	1631.2
Gross Private Dom. Investment	bil.$	388.5	393.1	404.3	419.2	429.0	411.5

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Consumer Price Index, NSA	1967=100	242.8	259.7	264.4	270.3	276.8	267.8
Producer Price Index, NSA	1967=100	269.5	286.1	291.3	297.2	302.6	294.3
Implicit GNP Price Deflator	1972=100	179.3	187.9	191.2	197.0	201.6	194.4
Gross National Product	bil.$	2566.0	2724.9	2798.2	2903.2	3000.6	2856.7
Personal Cons. Expenditures	bil.$	1631.2	1726.5	1759.5	1831.2	1895.4	1803.2
Gross Private Dom. Investment	bil.$	411.5	443.3	456.5	479.8	500.5	470.0

*Historical data

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TABLE 03. EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
Population	mil.	218.5	219.6	220.1	220.7	221.3	220.4
Civilian Labor Force	mil.	100.4	102.4	102.9	103.9	103.8	103.1
Employed	mil.	94.4	96.5	97.0	97.2	97.5	97.1
-Agriculture	mil.	3.3	3.3	3.3	3.4	3.3	3.3
-Non Agriculture	mil.	91.0	93.2	93.7	93.8	94.2	93.8
Unemployment Rate	%	6.0	5.77	5.73	5.81	6.09	5.85

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Population	mil.	220.4	221.9	222.6	223.4	224.1	223.0
Civilian Labor Force	mil.	103.1	104.2	104.8	105.6	106.4	105.3
Employed	mil.	97.1	96.8	97.5	98.6	99.2	98.0
-Agriculture	mil.	3.3	3.3	3.4	3.4	3.3	3.4
-Non Agriculture	mil.	93.8	93.5	94.1	95.2	95.9	94.6
Unemployment Rate	%	5.85	7.10	6.95	6.60	6.75	6.85

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Population	mil.	223.0	224.7	225.5	226.3	227.1	225.9
Civilian Labor Force	mil.	105.3	107.1	108.0	108.7	109.4	108.3
Employed	mil.	97.9	100.4	100.9	101.8	102.6	101.5
-Agriculture	mil.	3.4	3.3	3.3	3.4	3.3	3.3
-Non Agriculture	mil.	94.5	97.3	97.6	98.4	99.3	98.2
Unemployment Rate	%	6.95	9.26	6.53	6.39	6.20	6.35

*Historical data

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TABLE 04. HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
Single-Family Housing Starts	mil. units	1.433	1.119	1.262	1.236	1.085	1.176
Multifamily Housing Starts	mil. units	.567	.496	.575	.589	.521	.545
Mobile Homes Shipments	thous units	276	284	276	260	226	262
Housing Permits Issued	mil. units	1.680	1.405	1.503	1.306	1.003	1.304
Construction Costs-Commerc.	1972=100	164.3	172.7	177.6	185.7	196.2	183.1
Construction Costs-Resident.	1972=100	161.8	171.8	175.5	182.3	192.3	180.1

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Single-Family Housing Starts	mil. units	1.176	.927	.991	1.075	1.013	1.002
Multifamily Housing Starts	mil. units	.545	.487	.517	.529	.561	.524
Mobile Homes Shipments	thous units	262	190	224	236	240	222
Housing Permits Issued	mil. units	1.304	.970	.981	1.004	.994	.987
Construction Costs-Commerc.	1972=100	183.1	198.7	203.8	213.1	218.6	208.6
Construction Costs-Resident.	1972=100	180.1	195.1	202.5	210.4	214.8	205.7

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Single-Family Housing Starts	mil. units	1.002	.995	1.120	1.187	1.179	1.122
Multifamily Housing Starts	mil. units	.524	.541	.572	.601	.628	.586
Mobile Homes Shipments	thous units	222	246	262	273	289	268
Housing Permits Issued	mil. units	.987	.965	1.027	1.105	1.197	1.074
Construction Costs-Commerc.	1972=100	208.6	222.1	226.5	230.9	241.2	230.2
Construction Costs-Resident.	1972=100	205.7	218.1	221.6	224.8	228.6	223.3

*Historical data

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TABLE 05. FEDERAL AND STATE
AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2 *	3 *	4	
Federal Govt.:							
Income Taxes	bil.$	189.4	207.4	220.6	229.6	235.9	223.4
Corporate Profit Tax Accruals	bil.$	72.0	77.2	74.9	79.4	81.3	78.2
Surpl./Deficit	bil.$	-27.7	-11.7	-7.0	-11.3	-14.1	-11.0
State and Local Governments:							
Income Taxes	bil.$	37.5	40.8	42.9	38.9	40.8	40.9
Corporate Profit Tax Accruals	bil.$	12.5	14.1	13.7	14.7	14.6	14.3
Surpl./Deficit	bil.$	27.4	27.6	19.7	25.3	21.9	23.6

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil.$	223.4	239.8	243.4	250.9	253.4	246.9
Corporate Profit Tax Accruals	bil.$	78.2	80.2	82.5	87.0	89.3	84.8
Surpl./Deficit	bil.$	-11.0	-18.1	-20.5	-22.4	-21.2	-20.1
State and Local Governments:							
Income Taxes	bil.$	42.9	40.1	42.6	44.7	48.3	43.9
Corporate Profit Tax Accruals	bil.$	14.3	14.6	15.0	16.7	17.4	15.9
Surpl./Deficit	bil.$	23.6	19.5	19.4	19.2	18.0	19.0

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil.$	246.9	260.5	264.3	270.5	274.6	267.5
Corporate Profit Tax Accruals	bil.$	84.8	95.6	98.3	102.4	108.7	101.3
Surpl./Deficit	bil.$	-20.1	-22.8	-24.7	-23.2	-20.6	-22.8
State and Local Governments:							
Income Taxes	bil.$	43.9	49.3	54.8	57.1	58.6	54.6
Corporate Profit Tax Accruals	bil.$	15.9	19.2	20.7	22.5	23.9	21.6
Surpl./Deficit	bil.$	19.0	18.8	20.6	22.8	24.1	21.6

*Historical data

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TABLE 06. INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
Personal Income	bil.$	1717.4	1852.5	1892.5	1946.6	1979.1	1917.8
Personal Dispos. Income	bil.$	1458.4	1572.2	1601.7	1639.4	1655.1	1617.3
Compensation of Employees	bil.$	1304.5	1411.2	1440.6	1472.8	1483.6	1452.1
Corp. Profits After Tax	bil.$	121.5	142.0	139.3	148.3	145.2	143.7
Personal Saving	bil.$	72.0	79.2	85.9	70.3	69.1	76.1
Average Weekly Earnings	$	203.3	212.4	217.8	220.6	221.4	218.3

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Personal Income	bil.$	1917.8	2054.0	2111.1	2179.2	2250.0	2131.1
Personal Dispos. Income	bil.$	1617.3	1670.5	1718.6	1777.0	1836.0	1750.5
Compensation of Employees	bil.$	1452.1	1504.1	1598.7	1692.3	1760.8	1639.0
Corp. Profits After Tax	bil.$	143.7	145.6	149.7	166.8	173.7	159.0
Personal Saving	bil.$	76.1	68.4	70.3	75.6	80.7	73.8
Average Weekly Earnings	$	218.3	222.6	225.4	230.2	231.3	227.4

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Personal Income	bil.$	2131.1	2253.5	2298.4	2386.4	2465.9	2426.1
Personal Dispos. Income	bil.$	1750.5	1857.8	1896.3	1973.6	2043.4	1942.8
Compensation of Employees	bil.$	1639.0	1796.7	1846.3	1950.2	1990.4	1895.9
Corp. Profits After Tax	bil.$	159.0	177.8	184.3	189.8	191.8	185.9
Personal Saving	bil.$	87.8	81.2	85.4	89.6	93.2	87.4
Average Weekly Earnings	$	227.4	237.1	240.2	242.3	250.6	242.6

*Historical data

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TABLE 07. MONEY AND CREDIT
(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
Currency+Demand Deposits	bil.$	352.8	357.0	373.8	382.6	391.2	376.2
Time Deposits, Adjusted	bil.$	580.2	618.7	635.2	643.3	659.0	639.1
Consumer Instal. Credit	bil.$	275.6	278.3	284.8	290.6	298.4	298.4
Commerc.and Ind. Loans at Banks	bil.$	230.9	243.5	255.2	259.3	263.0	263.0
Negotiable Cert.of Deposits	bil.$	96.6	99.0	103.9	111.9	114.1	114.1
Mortgages at S&L Assns.	bil.$	432.9	441.4	447.5	450.5	452.0	452.0
Indicator	Unit	1979	1980				1980
			1	2	3	4	
Currency+Demand Deposits	bil.$	376.2	401.1	410.4	418.6	422.3	413.1
Time Deposits, Adjusted	bil.$	639.1	667.9	680.4	696.2	717.3	690.5
Consumer Instal. Credit	bil.$	298.4	303.2	308.2	314.5	319.8	319.8
Commerc.and Ind. Loans at Banks	bil.$	263.0	266.1	268.0	270.5	277.9	277.9
Negotiable Cert.of Deposits	bil.$	114.1	119.3	125.0	129.0	129.6	129.6
Mortgages at S&L Assns.	bil.$	452.0	451.9	459.3	463.0	478.1	478.1
Indicator	Unit	1980	1981				1981
			1	2	3	4	
Currency+Demand Deposts	bil.$	413.1	430.6	437.2	450.9	463.2	445.5
Time Deposits, Adjusted	bil.$	690.5	728.4	746.5	760.3	781.6	754.2
Consumer Instal. Credit	bil.$	319.8	326.8	335.4	343.7	355.6	355.6
Commerc.and Ind. Loans at Banks	bil.$	277.9	283.4	297.8	314.5	325.6	325.6
Negotiable Cert.of Deposits	bil.$	129.6	132.0	136.7	142.1	152.6	152.6
Mortgages at S&L Assn.	bil.$	478.1	481.9	495.8	504.2	514.8	514.8

*Historical data

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TABLE 08. INTEREST RATES, YIELDS AND SECURITIES PRICES

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
3 mo Treas.Bills Rate(new issues)	%	7.22	9.26	9.61	9.89	11.97	10.19
Prime Rate	%	9.06	11.75	11.76	12.31	15.26	12.77
Mortgage Rate, New Homes	%	9.30	9.97	10.05	10.17	11.89	10.52
Aaa Bonds Rate	%	8.73	9.29	9.54	9.72	10.08	9.66
Long Term Govt. Bonds Yield	%	8.48	9.03	9.19	9.36	10.53	9.52
Standard & Poor's 500 Average	1941-43=100	96.11	99.35	100.18	101.54	103.85	101.23

Indicator	Unit	1979	1980				1980
			1	2	3	4	
3 mo Treas.Bills Rate(new issues)	%	10.14	12.30	11.20	10.95	10.62	11.27
Prime Rate	%	12.77	14.88	13.96	12.80	11.60	13.29
Mortgage Rate, New Homes	%	10.44	11.82	11.43	11.28	10.97	11.38
Aaa Bonds Rate	%	9.66	10.30	10.02	9.97	9.86	10.04
Long Term Govt. Bonds Yield	%	9.52	10.50	10.43	10.20	9.96	10.27
Standard & Poor's 500 Average	1941-43=100	101.23	101.10	99.86	102.54	103.17	101.67

Indicator	Unit	1980	1981				1981
			1	2	3	4	
3 mo Treas.Bills Rate(new issues)	%	11.27	10.19	9.96	9.80	9.50	9.86
Prime Rate	%	13.29	11.15	10.11	9.83	9.57	10.17
Mortgage Rate, New Homes	%	11.38	10.50	10.31	10.06	9.94	10.20
Aaa Bonds Rate	%	10.04	9.61	9.52	9.39	9.56	9.52
Long Term Govt. Bonds Yield	%	10.27	9.71	9.56	9.48	9.43	9.56
Standard & Poor's 500 Average	1941-43=100	101.67	103.14	105.38	107.52	108.21	106.01

*Historical data